

Outsourcing Presentation

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**U.S. Outsourcing Information Systems
Program
(SOSOP)**

Outsourcing Presentation

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Emphasis on Primary Research

Experienced Senior Executives

Comprehensive Forecasts

MS-7

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SO/SI Market Analysis Research Basis

- Telephone and on-site interviews
 - 350 vendor revenue surveys
 - 30 detailed vendor profiles
 - 50 vendor interviews
 - 120 user interviews

SO-245a

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Notes



SO/SI Market Analysis Research Basis

- Contract data base
 - 160 outsourcing contracts
 - 240 SI contracts

SO-245b

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Information Systems Outsourcing

OU-83

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Outsourcing is the
contracting of information
systems processes to
external vendors.

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Notes

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- Systems outsourcing is
function oriented
- Systems integration is
project oriented

SO-240

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**"I haven't lost 200 people,
I've gained 50,000."**

**Jack Livingston,
National Car Rental**

Source: *Fortune* article

OU-3a

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Notes



"IBM runs our computer center as it's supposed to be run—as a profit center, not a cost center."

Kathy Hudson, Kodak

Source: *Fortune* article

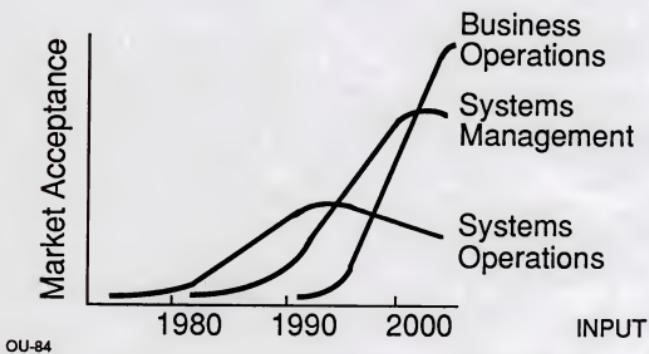
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Outsourcing Market Waves



OU-84
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U.S. Outsourcing Market Forecast

OU-85

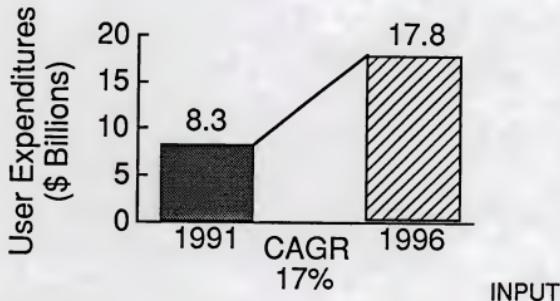
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U.S. Outsourcing Market Forecast, 1991-1996



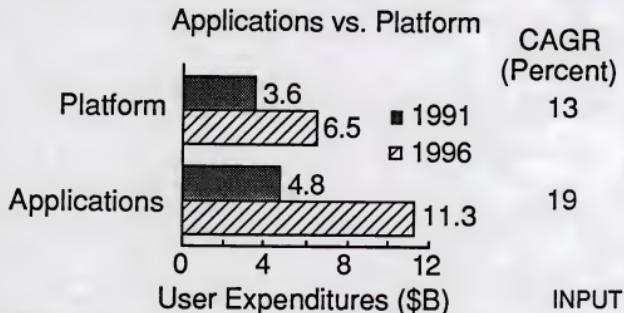
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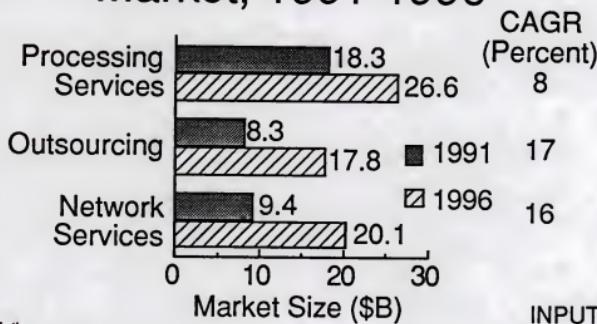
U.S. Outsourcing Market Forecast, 1991-1996



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U.S. Information Services Market, 1991-1996



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Outsourcing Market Trends/Issues

OU-86

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Driving Forces—Outsourcing

Category	Outsourcing
Response	Service requirements Flexible operations
Financial	Cost reduction New scales of economy
Management	Executive refocus

OU-25

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Driving Forces—Outsourcing

Category	Outsourcing
Staff	Scarcity of talents
Technology	Increasing complexity New technology

OU-24

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Inhibiting Factors Outsourcing

Category	Outsourcing
Management	Loss of control
Fallback	Inability to reverse decision

OU-25a

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Notes



Inhibiting Factors Outsourcing

Category	Outsourcing
Financial	Uncertain savings
Staff	Threat to organization

OU-25b

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Outsourcing User Issues

- Business environment
 - Critical value of information
 - Organizational impact
 - Flexibility for change

OU-25c

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Outsourcing User Issues

- Operating environment
 - Dependency on vendor
 - Long-term stability
 - Improved service levels
 - Control over operating costs

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Major Vendor Strategies

SICO1-JP1-37

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Leading U.S. SO Vendors

Vendor	1990 Market Share (Percent)
EDS	14
CSC	6
Systematics	3
ISSC	3

SO- 25a

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EDS

- 1990 sales - \$6 billion
- 60,000 employees
- Outsourcing market leader
- Large accounts focus

SO-202a

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EDS Outsourcing Strategy

- Maintain market dominance
- Acquire client assets
- Leverage acquired assets
 - Reservation systems
 - Manufacturing software

SO- 202b

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IBM

- 1990 sales - \$69 billion
- 374,000 employees
- World information technology leader

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IBM Outsourcing Strategy

- Focus marketing through ISSC
- Leverage base of experience:
 - Banking
 - Retailing
 - Manufacturing
- Early wins—platform operations

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SO-204b

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Andersen Consulting

- 1990 CY sales - \$2 billion
- 19,000 professionals
- Reexamining marketing strategies

SO-206a

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Andersen Outsourcing Strategy

- Reduce emphasis on processing
- Focus on applications management
- Use consulting as entree

SO- 206b

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Computer Sciences Corporation

- 1991 revenue - \$1.7 billion
- 22,000 professionals
- Strong acquisition activity

SO- 212a

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CSC Outsourcing Strategy

- Leverage federal experience
- Gain commercial market share
- Focus on applications processing

SO- 212d

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Vendor Strategies

- Invest in client business
- Hire client staff
- Acquire participating firms
- Develop risk containment

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Vendor Strategies

- Provide full service
- Focus on vertical market
- Target companies in transition
- Form ad hoc alliances

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Major Contracts

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IBM—United Technologies

- \$1 billion over ten years (estimate)
- UT traditional in-house focus
- Platform processing, not applications
- Three UT divisions (1 data center)

SO-241

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CSC—General Dynamics

- \$3 billion over ten years
- 2,600 people transfer to CSC
- Applications management/processing
- Culture = 2 defense contractors

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Perot Systems NCNB Bank

- \$200 million over ten years
- 240 people transferred
- Data center operations
- Started as systems integration project

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Andersen BP Exploration (U.K.)

- \$50 million over 4 years
- 260 staff transferred
- Assume business (billing) operations

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Outsourcing Contracting and Pricing

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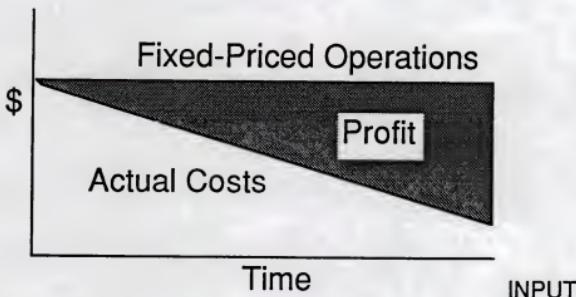
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Outsourcing Efficiency Yields Profits



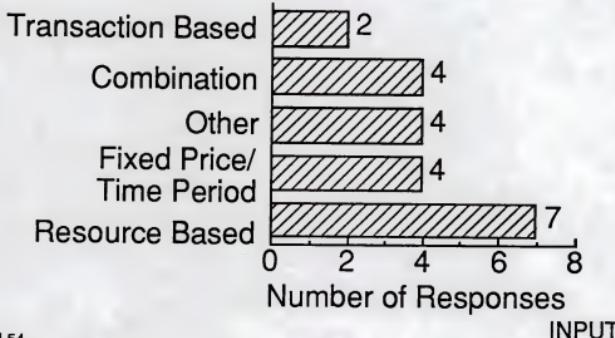
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Pricing Terms



OU-54

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Value Pricing Concept

- Three components
 - Audience
 - Determine benefit
 - Cost of achieving benefit
- EDS and DEC

OU-89

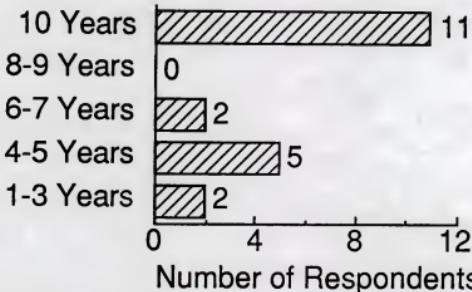
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Contract Length



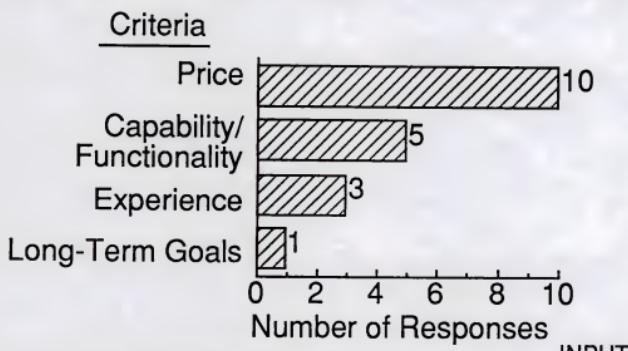
OU-53 Average contract length: 7.7 years

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Notes



Important Evaluation Criteria

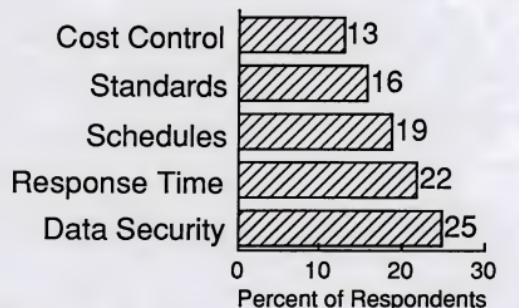


OU-52 Note: 13 respondents answered the question

Notes



Typical Contract Performance Measurements



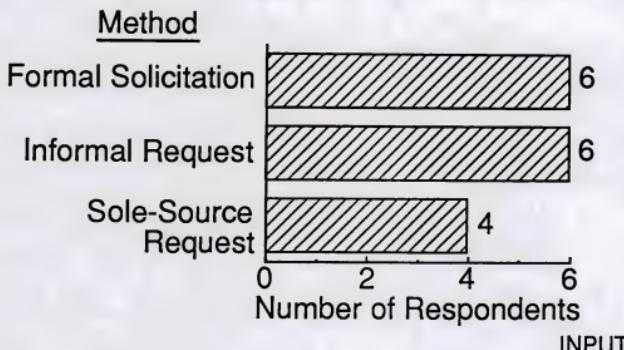
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Notes



Vendor Solicitation Methods



OU-82

Notes



Systems Operations Client Staffing

	Before Contracting	After Contracting
Bank	300	5
Government Agency	64	36
Retail Chain	70	0

SO-117

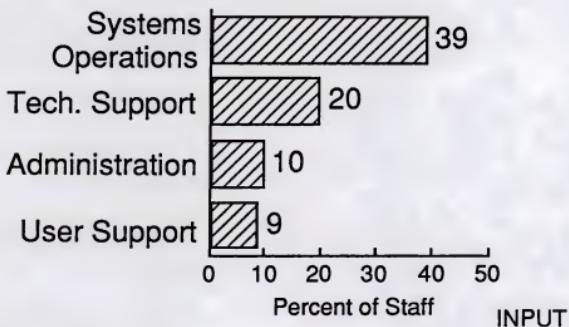
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Typical Vendor Personnel Profile



SO-133

Notes



Market Diversification

OU-90

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IS Outsourcing Areas

1. Systems operations
2. Applications management
3. Network operations
4. Desktop services

OU-7

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Notes

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Outsourced Functions

Function	Number of Resp.	
	Yes	No
Processing Operations	20	1
Network Operations	10	11
Applications Management	10	11
Applications Maintenance	1	20
Desktop Services	7	14

OU-51

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Notes



Applications Management

- Outsourcing of IS applications and IS operations
- Includes both maintenance and applications development

SO-75

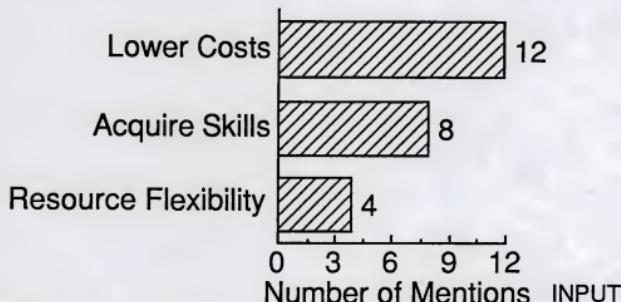
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Buyer Motivation Outsourcing of Appl. Mgmt.

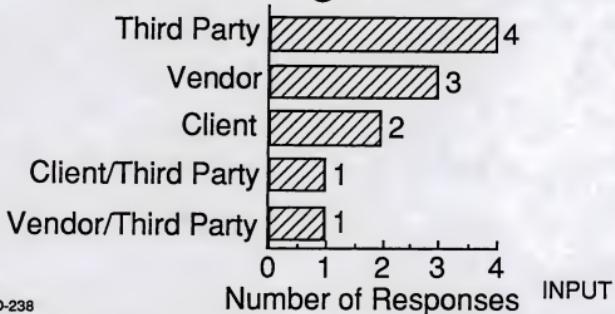


SO-237

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Software Managed by Outsourcing Vendors



SO-238

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Outsourcing of Network Management

OU-56

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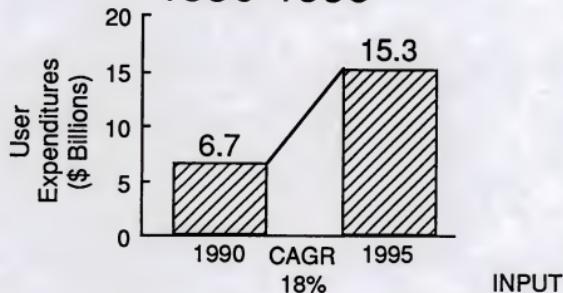
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Network Management Expenditure Forecast, 1990-1995



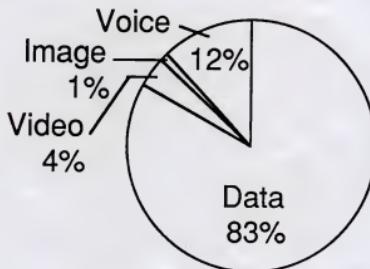
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Network Operations Management Revenue



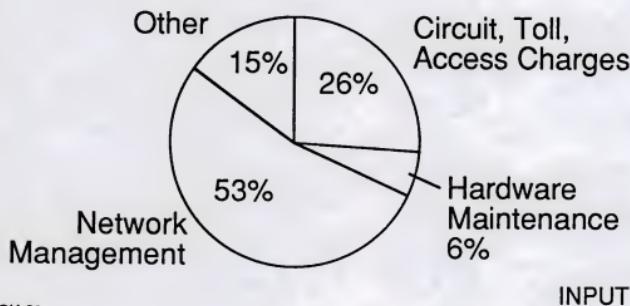
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Notes



Vendor Revenue by Type of Service

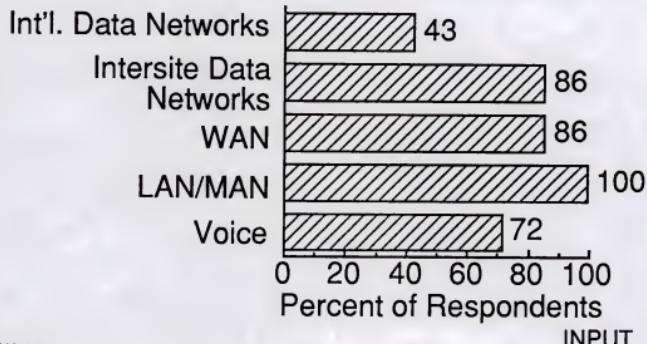


OU-60

Notes



User Networks Outsourced



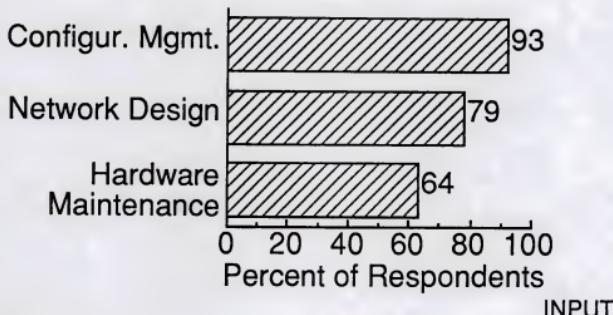
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Vendor Functions Provided



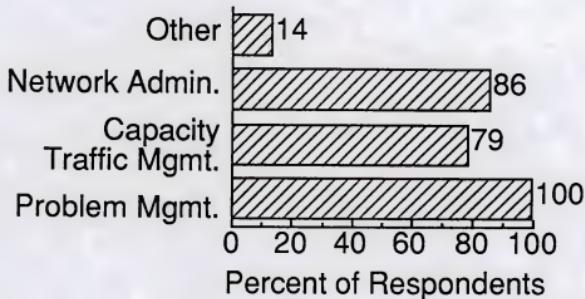
OU-59

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Notes



Vendor Functions Provided



OU-58

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Notes



Desktop Services

A Key Outsourcing Opportunity

OU-65

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Notes

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Elements of Desktop Services

- PC/workstation maintenance
- PC/workstation software installation

OU-66

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Notes



Elements of Desktop Services

- LAN administration
- LAN expansion
- Help desk functions
- User training

OU-67

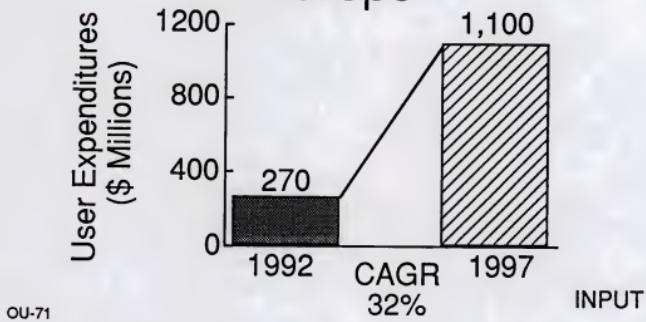
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Desktop Services Market Europe



OU-71

Notes



Driving Forces Desktop Services

- Core Business Focus
- Downsizing
- PC/LAN Based Applications
- Technological Change

OU-70

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Notes

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Typical Desktop Contracts in the U.S.

OU-72

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Notes



JWP/Kodak

- Part III of large outsourcing contract (ISSC/DEC)
- Provide
 - PC/workstation maintenance
 - Software upgrade
 - Help desk services

OU-73

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EDS/GE

- Contract valued at \$500 million (5 yrs)
- Provides:
 - PC/workstation central purchasing
 - Establishment of product specs
 - PC/workstation maintenance
 - Software upgrade and training
 - Help desk

OU-74

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Notes



DEC/Blockbuster Video

- International contract
- Provides:
 - Implementation and start-up service
 - Connectivity to network
 - Help desk
 - Hardware and software upgrade

OU-75

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Notes



ISSC/Zale Corp.

- Part of large outsourcing contract
- Provides:
 - PC/workstation maintenance
 - Software upgrade
 - Help desk

OU-76

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Notes



Business Operations Outsourcing

OU-91

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Business Operations Market

- Potential market 2 to 5 times information systems expenditures
- Contractors will show reduction in overall costs of 25% or more

IS-38

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Business Operations Examples

- Insurance claims processing
- Telephone company yellow pages operation
- Credit card operations
- Coupon processing for retailers
- Fulfillment for direct marketing

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IS-39

Notes

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Conclusions

- Outsourcing is revolutionary
 - Functional responsibility to vendor
 - Increased dependence for clients
 - Increased risk for vendor

OU-46

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Notes



Conclusions

- Outsourcing is revolutionary
 - Vendor/client partnerships
 - Vendor success tied to client success
 - Vendor provides all services

OU-47

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Notes



Conclusions

- Outsourcing revolution continues
 - Deals are getting bigger
 - Larger vendors most successful
 - More services being outsourced

OU-48

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The Outsourcing Revolution

A new way of doing
business . . . better

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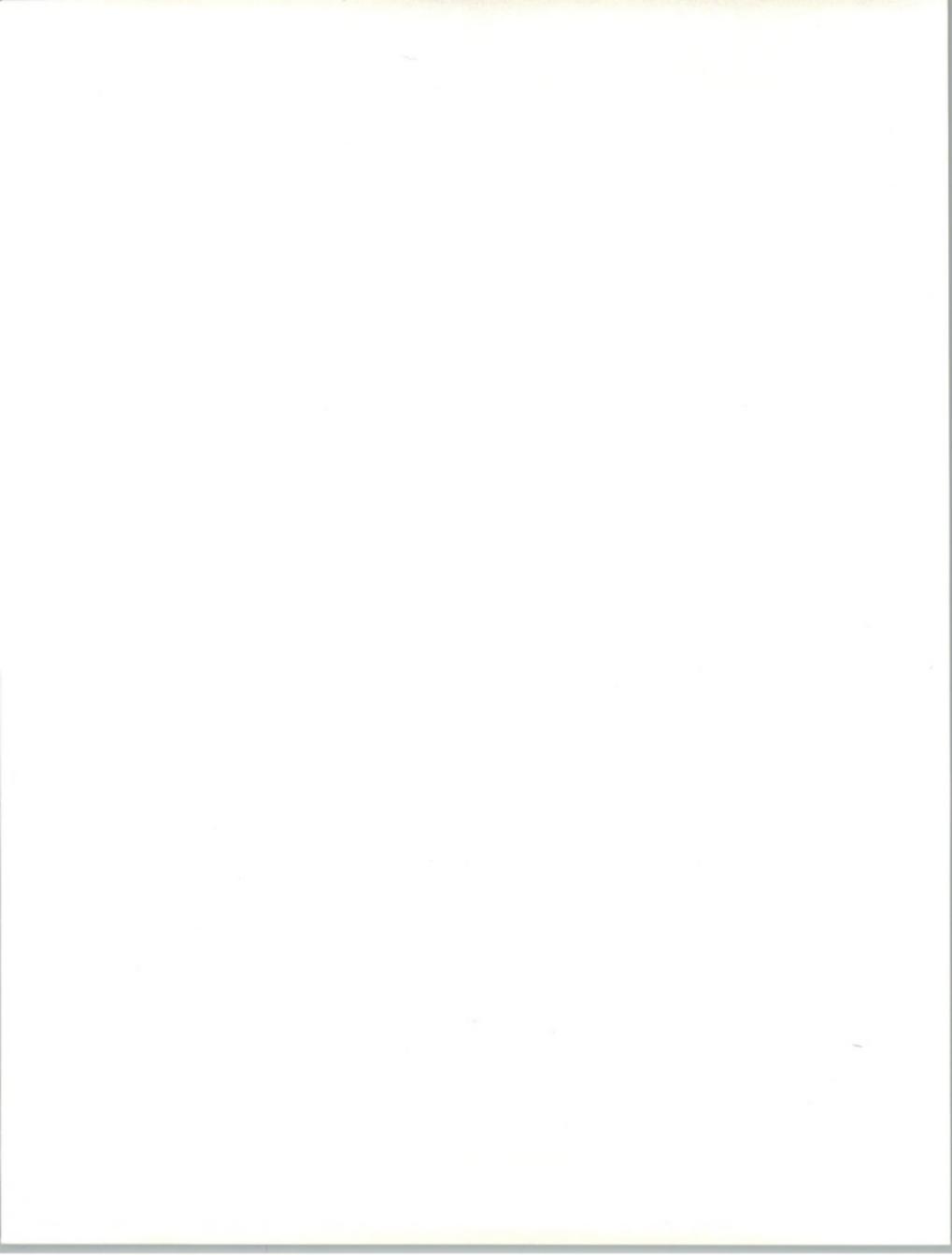
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Major Vendor Strategies

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